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SUBJECT: ALCKMIN THE BETTER MANAGER, SAO PAULO BUSINESS TELLS A/S WAYNE

REFS: (A) Sao Paulo 415; (B) Brasilia 608

SENSITIVE BUT UNCLASSIFIED - PLEASE PROTECT ACCORDINGLY.

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SUMMARY  
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1. (SBU) E. Anthony Wayne, Assistant Secretary of State (A/S) for Economic and Business Affairs, visited Sao Paulo April 5-6 to participate in the World Economic Forum on Latin America. While here, A/S Wayne also had several meetings with Sao Paulo business leaders. They indicated a general disappointment in the Lula Administration's lost opportunities for improving the economy over the last four years, particularly the failure to make headway on the microeconomic reform agenda, and conveyed a preference for leading opposition presidential candidate Geraldo Alckmin. Despite trailing substantially in the opinion polls, political and financial analysts claimed Alckmin has a fighting chance to win the presidency in October. Alckmin, who recently resigned his post as governor of Sao Paulo state to run for president, is seen in the business community as a better manager and more likely to favor trade agreements with the United States. END SUMMARY.

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IF YOU CAN'T CHANGE GOV'T POLICY, CHANGE THE GOV'T  
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2. (SBU) In general, the business leaders with whom A/S Wayne met in Sao Paulo expressed dissatisfaction with the state of the Brazilian economy and the way it has been managed by the Lula Administration (Ref A). On April 5, A/S Wayne met with the president and several directors of the Industry Center of Sao Paulo State (CIESP), a non-profit trade organization providing technical, legal and other support services to 9,700 member companies. A/S Wayne was told that the GoB has wasted many opportunities to spur

greater economic growth and has fostered policies, including high interest rates and an appreciated currency, that have had the effect of favoring commodity exports at the expense of the manufacturing sector. While several CIESP directors remained circumspect regarding the upcoming presidential election and which candidate the business community likely would support, President Claudio Vaz pointedly said he had no qualms stating that most industrialists he knows want to see a change in Brazil's leadership. "Knowing we cannot expect change from the Lula government," said Vaz, "we would prefer a change in government."

13. (SBU) When asked at lunch about former Sao Paulo state governor Geraldo Alckmin's (Brazilian Social Democracy Party - PSDB) chances for success in the presidential race, former journalist and current political consultant Carlos Eduardo Lins da Silva said Alckmin is a viable candidate and has a solid chance of beating Lula. While a string of corruption scandals have toppled major players in the governing Workers' Party (Partido dos Trabalhadores - PT) and the Lula Administration, all agreed that Lula himself is still a strong political figure, especially among the poor. Even with lackluster economic performance (see Ref A), Lula will be hard to beat, said Silva. He elaborated that, unlike in years past, Brazil is in a new era where political scandals do not rattle the economy; without severe economic shocks, the government remains stable and the Brazilian people appear satisfied with the status quo. Political consultant Joseph Tutundjian added that while many Brazilians were expecting much more from Lula in terms of poverty elimination and promotion of socio-economic equity, there has been a net gain of "formal" jobs in Brazil over the last three years. (NOTE: Some analysts believe Brazil's informal sector, in which many people hold jobs of limited duration, benefits and pay, comprises more than 40% of the economy as a whole. END NOTE.)

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NEW STYLE BUT NO POLICY SHIFTS EXPECTED FROM ALCKMIN  
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14. (SBU) The business leaders with whom A/S Wayne met over two days almost unanimously agreed that if Alckmin were elected, they would see immediate and important changes in how the GOB operates, and consequently, in Brazil's business environment. At CIESP, Boris Tabacof, an entrepreneur originally from the Northeast of Brazil with experience in electronics, chemicals and banking, said, "We expect that with a new president, we will see change on the first day." Yet, all the business leaders and analysts cautioned that they would not expect to see major economic policy shifts with Alckmin as president, especially regarding macro-economic management. Rather, the business leaders suggested, based on Alckmin's solid state-level record, that the government under Alckmin would simply be more effective in carrying out policy.

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ALCKMIN, THE DISCIPLINED MANAGER  
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15. (SBU) The consensus among business leaders and analysts was that, with 12 years aggregate experience as vice-governor and governor of Sao Paulo state, Alckmin, who is also a medical doctor, has simply proven to be a better manager than Lula. CIESP president Vaz noted that Alckmin better understands how to make public-private partnerships work, and that as an experienced state executive, he could harmonize policies and priorities between states more effectively than Lula. Likewise, almost all the business leaders consulted said they expected Alckmin to improve trade relations between Brazil and the United States, especially in regard to bilateral and sectoral agreements. Former journalist Silva tried to bolster this assertion by pointing out that as governor, Alckmin regularly convened a well-received council on trade to boost export opportunities for companies in Sao Paulo state.

16. (SBU) During the lunch session, consultant Tutundjian further described Alckmin as "incredibly objective and effective," and as "a man of action." Tutundjian said Alckmin has been able to reduce taxes in Sao Paulo state and still grow the economy by effectively

raising residents' incomes. Tutundjian added that Alckmin has been the only Brazilian governor to do so, and wondered aloud why other politicians in Brazil have not tried to replicate this model. He noted that Alckmin would be likely to cut government spending as a means to refocus government priorities and spur investment. According to Tutundjian, "all he has to do is spend less, and that alone will help the economy tremendously." Even a one percent reduction in Brazil's deficit would have a huge impact on Brazil's government and economy, because it would force agencies to make better choices, and it would free up bank money now used to finance the government for private loans.

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IMAGE VS. SUBSTANCE  
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¶7. (SBU) To illustrate the difference between Lula and Alckmin, Tutundjian recounted a comment he had heard from someone who has met both men. According to this source, "When you meet Lula, he will entice you in two minutes; but when you meet Alckmin, he will change your mind in 30." Thus, the problem for Alckmin will be that Lula has the warmer, more gregarious image, and generally speaking, Brazilians are more taken with image than with substance.

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PARTY ALIGNMENTS  
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¶8. (SBU) Tutundjian raised a concern that Alckmin might be swayed by advice from party associates who are less inclined to support market driven economic policies. He explained there are two main schools of economic thought in Brazil based in two major universities: the Catholic University of Rio de Janeiro school advocates reduced tariffs and market driven economics, while the University of Campinas (Sao Paulo State) school remains more interventionist and protectionist. Many of Alckmin's PSDB predecessors and close advisors have aligned in the past with the Campinas school, as has the PT. But Tutundjian said Alckmin has not fostered Campinas-like policies as governor. Franklin Feder, President of Alcoa Aluminum of Brazil, added that he had been told by Pedro Malan, Finance Minister under Lula's predecessor Fernando Henrique Cardoso and long-time PSDB member and advisor, that Alckmin has no interest in resurrecting interventionist government policies, and would follow market-driven policies.

¶9. (SBU) The CIESP leaders also predicted that if elected, Alckmin would be able to attain a power base rather quickly because of new rules regarding electoral counts. A political party now needs to achieve a threshold level of five percent of the votes in elections for the Chamber of Deputies in order to retain its privileges, such as holding leadership positions in Congress. Many smaller parties are expected to fall short. Thus, surmised CIESP leaders, we should see a consolidation of parties down to as few as five, and any alliance between Alckmin's PSDB and another leading party will be all the more powerful.

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COMMENT: HOPE SPRINGS ETERNAL  
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¶10. (SBU) The business leaders A/S Wayne met with in Sao Paulo were mostly open about their preference for Alckmin over Lula for president, but they also could not help but acknowledge that, to their general dismay, Lula remains strong in the polls despite what one consultant called the "worst corruption scandal in Brazil's history." These business leaders based in Sao Paulo, some Brazilian and some expatriate, have grown familiar with Alckmin's style of executive leadership and his support of business interests. (NOTE: One Brazilian noted almost mockingly that Alckmin has a very "American" style of starting meetings on time, dispensing with opening remarks, sticking to an agenda, and closing with specific action items on which he will follow up. END NOTE). We will need to watch closely who Alckmin chooses as his key economic advisors, and determine how open he will be to discussions. But given the

charismatic Lula's continued strength in the polls, Alckmin will need to add some warmth and folksiness to his "ethical manager" persona if he wants to gain ground on Lula, especially in the Northeast. END COMMENT.

¶11. (U) This cable was coordinated/cleared with Embassy Brasilia and with EB A/S Wayne.

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